

## Message Text

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FM SECSTATE WASHDC

TO ALL DIPLOMATIC AND CONSULAR POSTS

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C O R R E C T E D C O P Y (GARBLE PARA 5 LINE 10)

E.O. 11652: N/A

TAGS: EFIN

SUBJECT: ASSESSMENT OF THE PROBLEM OF THE MOST SERIOUSLY  
AFFECTED LDCS

1. THIS MESSAGE IS FOR BACKGROUND AND GUIDANCETOBE  
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DRWN UPON AS YOU CONSIDER APPROPRIATE IN DISCUSSIONS WITH

HOST GOVERNMENT OFFICIALS CONCERNING US VIEWS OF THE PROBLEMS OF THE LDCS MOST SERIOUSLY AFFECTED (MSAS) BY THE INCREASES IN OIL AND OTHER PRICES.

2. THE ABILITY OF DEVELOPING COUNTRIES TO MEET THE CHANGED WORLD ECONOMIC SITUATION VARIES WIDELY. SOME LDCS APPEAR ABLE TO COPE WITH PRESENT CONDITIONS AND STILL MAINTAIN A REASONABLE DEVELOPMENT EFFORT AS LONG AS INTERNATIONAL CAPITAL MARKETS CONTINUE OPERATING SMOOTHLY AND THERE IS SUFFICIENT WORLD ECONOMIC EXPANSION TO PROVIDE MARKETS FOR EXPORT EXPANSION. OTHERS, HOWEVER, CONFRONT AN EMERGENCY FINANCING PROBLEM AND REQUIRE SIGNIFICANT EXTERNAL CAPITAL FLOWS ON CONCESSIONAL TERMS IF THEY ARE TO AVOID SERIOUS INTERRUPTION TO THEIR ECONOMIC DEVELOPMENT.

3. WITHIN THE USG, WE HAVE BEGUN THE TASK OF DEFINING THE NATURE OF THE PROBLEM FOR THE MSAS. TO DATE WE HAVE

LIMITED OUR INVESTIGATION TO THE IMMEDIATE FUTURE, I.E., 1974 AND 1975. WE HAVE ATTEMPTED TO ESTIMATE THE MAGNITUDE OF EMERGENCY CONCESSIONARY EXTERNAL AID -- QUITE APART FROM CONTINUING LONG-TERM DEVELOPMENT ASSISTANCE -- NECESSARY TO AVOID SERIOUS SHORT-TERM DISRUPTION. WE WILL BE USING THIS ANALYSIS AS A US CONTRIBUTION IN VARIOUS INTERNATIONAL DISCUSSIONS OF THIS PROBLEM.

4. OUR PRELIMINARY WORK HAS REVEALED DIFFICULT PROBLEMS IN ANALYSIS AND ADEQUACY OF DATA. THE HIGH DEGREE OF UNCERTAINTY WITH RESPECT TO SUCH VARIABLES AS GROWTH IN DEVELOPED COUNTRIES AND SUPPLY AND PRICE TRENDS FOR BASIC COMMODITIES, AND THE SENSITIVITY OF MSA FINANCING NEEDS TO THESE VARIABLES, MAKES THE TASK OF ESTIMATION DIFFICULT. OUR IDENTIFICATION OF THE 25 OR SO COUNTRIES WHICH WE FEEL ARE MSAS WAS BASED ON IBRD/IMF/USG PROJECTIONS OF CAPITAL FLOWS, COMMODITY SUPPLIES AND PRICES, AND EXPORTS AND IMPORTS. (WE RECOGNIZE THAT MODIFICATION OF THIS TENTATIVE LIST, WHICH HAS NOT YET BEEN DISTRIBUTED, WILL BE NECESSARY AS CIRCUMSTANCES CHANGE AND/OR ADDITIONAL INFORMATION LIMITED OFFICIAL USE

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BECOMES AVAILABLE, INCLUDING DATA ON AID BY OIL EXPORTERS.)

5. WE PROJECT THE 1974 BASIC BALANCE OF PAYMENTS DEFICIT (CURRENT PLUS CAPITAL ACCOUNT) TO BE ON THE ORDER OF \$2.5 TO \$2.9 BILLION FOR THE COUNTRIES CONCERNED. USING THIS ESTIMATE, AND FOCUSING ON THE LIMITED TIME FRAME OF 1974-75, THE FOLLOWING ASSUMPTIONS WERE MADE TO DERIVE THE MINIMUM LEVEL OF ADDITIONAL CONCESSIONAL FINANCING

REQUIRED:

-- THE MSAS WILL BORROW FROM THE IMF THROUGH THEIR GOLD TRANCHE (IF SUCH IS AVAILABLE) IN ADDITION TO BORROWING ONE CREDIT TRANCHE MORE THAN ALREADY DRAWN AS OF JANUARY 1974.

-- THE MSAS WILL DRAW DOWN RESERVES TO A LEVEL OF TWO MONTHS' IMPORTS BY YEAR-END 1974.

-- SOME ACTIONS ON DEBT RESCHEDULING AND AID FROM OIL EXPORTING COUNTRIES ALREADY IN VARIOUS STAGES OF DECISION WILL BE REALIZED.

6. THE RESULTING ESTIMATE OF THE ADDITIONAL FINANCING PROBLEM FOR THE MSAS IS ON THE ORDER OF 1 BILLION DOLS TO 1.5 BILLION DOLS; PROBABLY CLOSER TO 1 BILLION DOLS IN 1974. IT IS RECOGNQED THAT FOR 1975, THE MSAS - HAVING ALREADY DRAWN DOWN RESERVES AND OBTAINED IMF FINANCING - WILL BE LESS ABLE TO FINANCE THEIR DEFICITS THAN IN 1974, SO THAT THE FINANCING PROBLEM WILL BE TOWARDS THE TOP OF THE RANGE. IT SHOULD BE REITERATED THAT THE ESTIMATE FOR 1974 IS TENTATIVE AND THAT FOR 1975 IS HIGHLY TENTATIVE.

7. WE WOULD ALSO STRESS THAT ADDITIONAL ASSISTANCE AT THIS LEVEL WOULD NOT FULLY OFFSET THE EFFECTS ON REAL INCOMES AND GROWTH RATES OF THE DETERIORATION IN TERMS OF TRADE. IT SHOULD, HOWEVER, HELP AVOID SUBSTANTIAL REDUCTIONS IN LIVING STANDARDS AND MAJOR ECONOMIC DISLOCATION IN THE SHORT-TERM (1974-75), WHILE LONGER-RUN APPROACHES TO THIS MAJOR PROBLEM ARE BEING DEVELOPED, PARTICULARLY DOMESTIC MEASURES IN THE AFFECTED COUNTRIES.

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8. THE USG ESTIMATE OF MSA EMERGENCY REQUIREMENTS SHOULD NOT BE CONFUSED WITH OTHER PUBLICLY STATED ESTIMATES OF THE MAGNITUDE OF THE PROBLEM. THE WORLD BANK AND THE IMF HAVE BOTH PREPARED ANALYSES OF THE IMPACT OF RECENT PRICE CHANGES ON DEVELOPING COUNTRIES. THE COVERAGE AND UNDERLYING ASSUMPTIONS OF THEIR WORK DIFFER FROM OURS AND THUS DIRECT COMPARISON IS NOT AT THIS TIME POSSIBLE. FOR INSTANCE, AN IMF FIGURE OF 11.8 BILLION DOLS WAS MENTIONED DURING THE JULY ECOSOC MEETING AT GENEVA. THIS FIGURE, HOWEVER, REPRESENTS THE INCREASE IN CURRENT ACCOUNT DEFICIT OF ALL LDCS OTHER THAN OIL PRODUCERS, WHILE OUR STUDY WAS LIMITED ONLY TO MSAS AND ALSO TOOK ACCOUNT OF CAPITAL FLOWS AND OTHER ASSUMPTIONS (AS IN PARA 5, ABOVE) NOT RPT NOT REFLECTED IN THE IMF FIGURE. UN SPOKESMEN HAVE MENTIONED A 3 TO 4 BILLION

DOL DIMENSION OF THE MSA PROBLEM, BUT WE ARE NOT CERTAIN AS TO THE COVERAGE AND TIME-FRAME OF THIS FIGURE. IN ANY EVENT, WE ARE IN CLOSE AND CONTINUING TOUCH WITH THE IBRD AND IMF AND OTHER INTERNATIONAL ORGANIZATIONS, AND WE ARE HOPEFUL THAT A COMMONLY ACCEPTED ASSESSMENT OF NEEDS WILL BE DEVELOPED IN THE INTERNATIONAL DISCUSSIONS OF THE MSA PROBLEM NOW GETTING UNDER WAY.

9. IN SUM, THE USG BELIEVES THAT, OVER THE NEXT YEAR AND A HALF, THE DIMENSIONS AND TIMING OF DEALING WITH THE PROBLEM APPEAR SERIOUS BUT MANAGEABLE, ASSUMING THE POLITICAL WILL IS PRESENT AND THE APPROPRIATE ACTIONS ARE TAKEN. A REDUCTION IN OIL AND OTHER PRICES IS OF COURSE THE PREFERRED MEANS, BUT IT IS UNREALISTIC TO BELIEVE THAT A ROLLBACK TO EARLY 1973 LEVELS WILL TAKE PLACE. HOWEVER, THIS REINFORCES THE NEED FOR THE OIL EXPORTERS TO PROVIDE MORE ASSISTANCE TO THE MSAS ON CONCESSIONAL TERMS.

10. DONORS SHOULD BE ENCOURAGED TO UTILIZE ALL VIABLE BILATERAL AND MULTILATERAL CHANNELS FOR PROVIDING AND COORDINATING ASSISTANCE. THE US FAVORS UTILIZING EXISTING CHANNELS OF ASSISTANCE FROM THE STANDPOINT OF EFFICIENCY AND EXPERTISE. WHILE THE UN HAS A ROLE, THE US DOES NOT BELIEVE THAT THE UN SHOULD BE INVOLVED IN THE OPERATIONAL MANAGEMENT OF A SPECIAL FUND FOR THIS EFFORT. LIMITED OFFICIAL USE

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11. YOU MAY BE QUERIED AS TO US AID TO MSAS. OFT-STATED SPOLICY POSITION, AS EXPRESSED BY SECRETARY KISSINGER AT UNGA SPECIAL SESSION IN APRIL AND REITERATED AT NUMEROUS INTERNATIONAL MEETINGS SINCE THEN, IS THAT US DESIRES TO COOPERATE IN INTERNATIONAL EFFORTS TO ALLEVIATE SITUATION OF MSAS. ALTHOUGH WE HAVE NOT ANNOUNCED AN OVERALL GLOBAL FIGURE, US IS PROCEEDING, ON A CASE BY CASE BASIS TO PROVIDE ASSISTANCE TO MSAS WITHIN ONGOING PROGRAMS. WE BELIEVE THAT THERE NEEDS TO BE INTERNATIONAL CONSENSUS ON WHAT IS AN MSA, TIME-FRAME OF AID, MEASUREMENT OF ADDITIONALITY, CONCESSIONALITY, ETC.

12. THE EXTENT OF THE FINANCIAL PROBLEM FOR INDIVIDUAL COUNTRIES AND POSSIBLE US POLICY RESPONSES ARE THE SUBJECT OF INTENSIVE AND CONTINUOUS STUDY BY A SPECIAL USG INTERAGENCY WORKING GROUP. MEANWHILE, WE ARE PROCEEDING ON THE ESTABLISHED COURSE OF SEEKING CONGRESSIONAL APPROVAL OF MULTILATERAL AND BILATERAL AID PROGRAMS INCLUDED IN THE FY 1975 BUDGET. IN THIS CONNECTION, WE WERE GRATIFIED AT THE HOUSE OF REPRESENTATIVES

ACTION ON JULY 2 IN AUTHORIZING, BY 225 TO 140, A 1.5  
BILLION DOLS US CONTRIBUTION TO THE INTERNATIONAL  
DEVELOPMENT ASSOCIATION FOURTHREPLENISHMENT THUS REVERS-  
ING THEIR VOTE OF LASTJANUARY AND FOLLOWING ON  
SUCCESSFUL PASSAGE OF THIS LEGISLATION BY THE SENATE  
INMAY. FYI: WE STILL NEED COULTATIONS WITH AND  
STATEMENTS FROM APPROPRIATIONS COMMITTEES BEFORE THE US  
CAN ACTUALLY SIGN THE REPLENISHMENT. END FYI. THE  
EXECUTIVE BRANCH WILL ALSO BE DECIDING LATER THIS SUMMER  
ONRECOMMENDED PL 480 LEVELS FOR FY 1975. THE USG  
INTENDS TO KEEP THE UN SYG FULLY INFORMED, FOR  
ATTRIBUTION PURPOSES, OF ALL MEASURES IT INTENDS TO TAKE  
INTECONTEXT OF THE GLOBAL DEVELOPMENT EFFORT. KISSINER

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